UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/AC.237/26/Add.1
19 February 1993

ENGLISH ONLY

INTERGOVERNMENTAL NEGOTIATING COMMITTEE
FOR A FRAMEWORK CONVENTION ON CLIMATE CHANGE
Seventh session
New York, 15 - 19(20) March 1993
Item 2 (a) of the provisional agenda

**MATTERS RELATING TO ARRANGEMENTS FOR THE FINANCIAL MECHANISM AND FOR TECHNICAL AND FINANCIAL SUPPORT TO DEVELOPING COUNTRY PARTIES:**

**A. IMPLEMENTATION OF ARTICLE 11 (FINANCIAL MECHANISM), PARAS. 1-4**

**Addendum 1**

# Selected background documentation relating to the Global Environment Facility (GEF)

**Note by the secretariat**

This addendum contains copies of relevant extracts from the following GEF documents, available in English only, as well as from "Agenda 21" adopted by the United Nations Conference on Environment and Development:


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| A. | "The Pilot Phase and Beyond", May 1992; Part One "Beyond the Pilot Phase", Principles; | 2 - 3 |
| B. | Idem, Annex III "Criteria for Eligibility and Priorities for Selection of GEF projects"; Report by the Scientific and Technical Advisory Panel; | 4 - 11 |
| C. | "Agenda 21" (A/CONF.151/26(Vol.III)); | 12 |
| D. | Report by the Chairman of the STAP to the Participants' Meeting, December 1992; | 13 - 18 |
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## A. "The Pilot Phase and Beyond", May 1992; Part One "Beyond the Pilot Phase", Principles

1.01 The operational experience of the GEF's first year[1] has helped to crystalize certain principles which would serve as building blocks for the future. These principles are:

1.02 **Principle I: The GEF would provide additional grant and concessional funding of the agreed incremental costs for achieving agreed global environmental benefits.**

The ability to raise additional funds is linked to the focus on incremental cost[2] financing. This could be achieved through a periodic replenishment of a single fund. The GEF should not replace other funds; it should be additional and complement multilateral and bilateral development assistance.

1.03 **Principle II: The GEF would finance activities which benefit the global environment. It would continue to support its current four focal areas. Land degradation issues, primarily desertification and deforestation, as they relate to the focal areas of the Facility, would be eligible for financing.**

It should, however, be noted that within these four areas -- global warming, biodiversity, international waters and ozone depletion -- there are many instances where it is difficult to distinguish global and national environmental benefits, and therefore some degree of flexibility in interpreting such benefits is required.

1.04 **Principle III: The GEF is available to function as the funding mechanism for agreed global environmental conventions, should the parties to those conventions so desire.**

The primacy of the parties to an individual convention would be maintained with respect to policy and program priorities, guidelines for project formulation, and eligibility criteria. The GEF would focus on programming and implementation and ensure that convention-specific priorities and criteria are fully respected.

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[1] For a more detailed discussion of developments since December 1991, see the April 1992 Chairman's Report, Volume I.

[2] "Incremental costs" are defined as the extra costs incurred in the process of redesigning an activity vis a vis a baseline plan – which is focussed on achieving national benefits – in order to address global environmental concerns. GEF funding thus covers that part of the expenditures that is not offset by nationally appropriated benefits. Alternative assumptions – each reasonable – about baseline expenditures have been shown to result in a wide range of incremental costs. It follows that since applying this principle unambiguously in practice is difficult, some flexibility in its interpretation may be called for. As part of its Policy and Strategy Work Program, GEF staff, in cooperation with STAP, intend to review operational definitions of incremental costs.

1.05 **Principle IV: The GEF would assure the cost effectiveness of its activities in addressing the targeted global environmental issues.**

One important feature of adhering to the principle of cost effectiveness is that the least cost means of meeting many global environmental objectives lie in a judicious combination of investment, technical assistance, and policy actions at the national and regional level. Thus, in assessing specific project interventions, the range of possible policy and investment options will need to be carefully reviewed, including their sustainability.

1.06 **Principle V: The GEF would fund programs and projects which are country driven and consistent with national priorities designed to support sustainable development.**

The costs of incremental action needed to attain global environmental benefits are strongly influenced by existing national policies. In a distorted economy, these costs could be very high. Hence, GEF financing will need to be coordinated with the implementation of appropriate national policies, as well as with development financing.

1.07 **Principle VI: The GEF would build on proven institutional structures, such as the partnership among UNDP, UNEP, and the World Bank, thus avoiding the creation of new institutions.**

The management of the Facility must be cost-effective, its staffing levels prudent, and its operating modalities efficient.

1.08 **Principle VII: The GEF must be transparent and accountable to contributors and beneficiaries alike.**

The goal of the GEF is universal membership. The GEF would ensure a broad and equitable representation of developing and developed countries in the governance and guidance of the Facility.

1.09 **Principle VIII: The GEF would have sufficient flexibility to introduce modifications as the need arises.**

The Participants have communicated to the members of the International Negotiating Committees for the Climate and Biodiversity Conventions that the GEF would be available as the funding mechanism for these conventions, should the Parties so desire. In addition, funding for other existing or prospective global environmental conventions could be assigned to the GEF, where the agreed global environmental benefits and available resources make such coverage appropriate. Consequently, the governance of the GEF would have sufficient internal flexibility to permit a smooth transition towards a GEF with a broader scope of work, if and when needed. Flexibility may also be important for strengthening the involvement of the private sector in the GEF.

## B. "The Pilot Phase and Beyond", May 1992; Criteria for Eligibility and Priorities for Selection of GEF projects; Report by the STAP

### 1.0 *Introduction*

Under its terms of reference, the Scientific and Technical Advisory Panel (STAP) of the Global Environment Facility (GEF) has been tasked by the three implementing agencies, World Bank, United Nations Development Programme (UNDP), and the United Nations Environment Programme (UNEP) with formulating for each of the four basic areas of environmental intervention, i.e. reduction of greenhouse gas emissions, protection of biodiversity, protection of international waters, and reduction of ozone layer depletion:

* a set of criteria for identifying projects (or programmes) eligible for GEF consideration, and

* a list of priorities for selecting GEF projects.

The present document aims to provide the three implementing agencies with criteria for eligibility and priorities for project selection. This document also provides those countries eligible to submit GEF proposals with information that will facilitate project formulation.

The criteria and priorities have been developed so that the final portfolio of projects will be balanced and representative of the range of interventions involving technologies, techniques, and policies that should be funded by GEF.

A fundamental perspective guiding this document is that the present phase of GEF activity is an initial pilot phase. GEF is likely to be continued in an "operational" phase, when the relative importance of some of the criteria and priorities will be different, notably the issues of cost-effectiveness and incremental costs will assume increased importance. Therefore, the criteria and priorities set forth in this document for the pilot phase will evolve in order to be consistent with the criteria and priorities emanating from the climate change and biodiversity conventions.

The present document develops:

(i) a set of generic criteria that must be satisfied by any project (irrespective of which category environmental intervention it belongs to) for it to become eligible for consideration;

(ii) a set of criteria specific to each category of environmental intervention that must be satisfied by any project for it to become eligible for consideration;

(iii) a set of priorities to select (out of the set of eligible projects) a sub-set of projects for GEF funding;

(iv) quantitative funding targets for the various project areas concerned within three of the environmental areas covered by the GEF mandate (an exception is made in the case of reduction of ozone-depleting substances);

(v) criteria and priorities for research activities within the GEF context.

In addition, STAP has identified the types of projects that have the potential to simultaneously contribute to two or more of the environmental areas of intervention.

This document will be re-issued in the near future incorporating a set of appendices that will describe the analytical framework for each environmental issue from which the criteria and priorities were derived.

Criteria and priorities for GEF projects must evolve as experience is gained in their application, as new scientific evidence on the issues emerge on the interventions and impacts, and as the political process modifies the objectives of the whole programme. A preliminary draft set of criteria and priorities were "field-tested" by the implementing agencies in the preparation of the Second Tranche of projects. These "field-tests" brought forth a number of difficulties, reactions, comments and suggestions. This extremely valuable feed-back from the implementing agencies was taken into account in developing an Initial Implementation Draft (November 1991) for use in the preparation of the third tranche. The present document has taken into account additional suggestions from governments, the scientific and technical community, and the implementing agencies.

## 2.0 *Generic Criteria Applicable to all Four Areas of Global Environment Facility (GEF) interventions*

A project from any category of interventions can become eligible for consideration for GEF selection if and only if it satisfies the following generic criteria

The project should:

- have the potential to benefit the global environment in terms of one or more of the following generic impacts (i) reduction in greenhouse gas emissions, (ii) protection of biodiversity, (iii) protection of international waters, or (iv) a reduction in ozone layer depletion;

- contribute to human welfare and sustainable development;

- be replicable (in an international context);

- contain an incentive design to secure sustainability;

- be unlikely to be included in the country's development portfolio without GEF funding, even though it has significant global and national benefits. In general, GEF should fund projects when domestic costs are greater than domestic benefits, but global benefits are greater than domestic costs;

- o develop human capability (through education, training and research) and institutional capability;
- o have a firm scientific and technical basis;
- o have a good chance of succeeding through a strong interaction of technological and scientific knowledge and social and economic issues;
- o be placed in the context of comprehensive existing or evolving national and regional environmental programs, which should provide favorable political, economic, legal, and administrative conditions for the effective implementation of the GEF investment;
- o include plans for evaluation and dissemination of results and knowledge;
- o include plans, as appropriate, for post-GEF project continuation of the activity within the national context;
- o be participatory in nature, involving close collaboration with local communities wherever possible;
- o be of sufficient maturity that it can to be developed within the three-year GEF time frame for project approval;
- o satisfy an environmental impact assessment that examines all potential adverse consequences.

Since the present phase of GEF can be viewed as a pilot phase in which there are definite constraints on the funds available, it would be advantageous if the restricted funds are utilized to innovate. In other words, other things being equal, it makes sense that GEF funds should be used to support innovative projects and do something new. In the pilot phase, therefore, the following additional generic criterion commends itself: the project should

- o have some innovative characteristics.

Obviously, as GEF or some GEF-like mechanism moves into its operational phase, the premium on innovativeness will diminish and projects need not necessarily be novel. Rather, their cost-effectiveness and beneficial impact on the global environment is far more important.

Satisfaction of the above generic criteria is a <u>necessary</u> condition for a project to become eligible for GEF selection; i.e., if a project does not satisfy these generic criteria, it disqualifies itself and becomes ineligible for consideration for inclusion in the GEF portfolio. On the other hand, satisfaction of the above generic criteria is not a sufficient condition for a project to become eligible for consideration for GEF funding. Other conditions have also to be satisfied depending upon the category of environmental intervention. These additional eligibility criteria are elaborated below under the four environmental issues.

3.0 *Resource allocation*

It is the understanding of STAP that the Participants of the GEF have indicated that approximately 40-50 per cent of the Global Environment Trust Fund (GET) resources shall be spent on projects concerned with the reduction of greenhouse gas emissions, about 30-40 per cent on projects to protect biodiversity, about 10-20 per cent on the protection of international waters and a small amount on the reduction of ozone-depleting substances. The small percentage of GET resources for the ozone depletion issue arises because most of the developing countries that have signed and ratified the Montreal Protocol on Substances that Deplete the Ozone Layer are eligible for funding from the Interim Multilateral Fund for the Implementation of the Montreal Protocol.

The following sections describe how STAP has indicated quantitative targets for allocation of financial resources within three of the environmental areas covered by the GEF mandate (an exception is made in the case of reduction of ozone-depleting substances). These targets reflect STAP's overall sense of the relative weight to be allocated to the various project areas concerned, and STAP considers that these targets should appropriately guide the three implementing agencies in their identification and selection of projects. At the same time, STAP is quite clear that the targets can serve as general guidelines rather than as rigid goals for the allocation of resources. In particular, the quantitative indications must not result in a departure from, and devaluation of, the qualitative criteria for projects as set forth in the following guidelines.

If it should turn out that the targets cannot be reached because the number of project applications satisfying the qualitative criteria is inadequate, preference must be accorded to those applications fulfilling the highest standards rather than attempting to select projects solely to fulfill the targets.

*4.0 Reduction of greenhouse gas emissions*

Three principles have guided the analytical approach developed by the Working Group on Reduction of Greenhouse-gas Emissions.

First, decision makers should have at their disposal a growing menu of technologies from which to choose those options offering the greatest possible emission-reduction at the lowest cost. By choosing among these possibilities, a least-cost emissions-reduction strategy can be formulated.

Second, in order for this menu of technological possibilities to expand and achieve even greater cost-effective emissions reduction, it is important that promising but not-yet-proven technologies be pushed in the right direction, i.e., initiatives should be taken to move the technology into general use in cases where the technology, the economics or the market is not yet "right".

Third, GEF funding should be provided so that decision-makers can include in the portfolio of technologies required to advance development those technologies that have global environmental benefits.

On the basis of this framework, it is suggested that one of the most effective roles GEF can play is to take technologies that promise to expand the menu of emissions-reduction options available to decision-makers and to overcome the technological, economic, and market acceptance shortcomings of these technologies. It is further suggested that GEF's role be focussed and its

performance evaluated on its ability to move such promising technologies into widespread use as measured by the willingness of "conventional" financing sources to take on future rounds of such projects.

Another important point is to enrich the development portfolio with projects of global environmental benefit.

Thus, an important perspective is that the technologies deployed in the reduction of greenhouse gas emissions become economically and developmentally sustainable.

4.1 *Additional Criteria for project eligibility in the Area of Reduction of Greenhouse Gas Emissions*

4.1.1 Though a project may satisfy all the generic criteria (i.e., all the necessary conditions), it may involve an emissions-reduction technology (ERT) that has not yet achieved its full technical, economic, and market potential, which in fact may be far greater than the technologies conventionally deployed. The realization of emissions-reduction potential of such a promising technology requires that it must be assisted to achieve its full technical, economic, and market potential with GEF funding because mainstream financing will not deem it ready for support. Thus, GEF support is crucial to make the ERT implementable because it would not be implemented without this demonstration and proof of implementability.

In the case of a project involving such a promising emissions-reduction technology (ERT) that has not yet achieved its full technical, economic, and market potential, at least one of the following sub-criteria must be met in order to make the project eligible for consideration for GEF selection:

- Given that an emissions-reduction technology (ERT) is technically feasible (in the sense that the research and development are complete) but not yet proven, GEF support is necessary to demonstrate the technology or to prove its functioning;

- Given that an ERT has been technically proven, GEF support is necessary to make it economically viable by getting the costs right, i.e., the technology needs to capture the economies of large scale production.

- Given that an ERT is economically viable (using accepted criteria), GEF support is necessary to demonstrate how to make it the ERT marketable;

- Given that an ERT is technically and economically viable, and also market-worthy, but the country lacks appropriate policies and legislation, institutional capabilities, managerial competence and skilled personnel, GEF support in the form of technical assistance, training facilities and training is necessary to overcome these shortcomings;

- GEF support makes ERTs implementable because they would not be implemented without this demonstration and proof of implementability.

4.1.2 To ensure the replicability of the projects both within the country and in other countries, the project should:

- o Result in the preparation of complete implementation packages, identifying and specifying all hardware as well as software (policies, policy instruments, policy agents, institutions, financing, management, etc.);

- o Ensure that performance evaluation plans, such as monitoring of actual greenhouse gas reduction measures and their cost-effectiveness, are built into the project.

4.2 *Resource allocation and priorities for project selection*

The application of the generic criteria and area-specific criteria will lead to the identification of a large number of projects eligible for consideration for selection in the GEF portfolio. The next step is to select from such a suite of eligible projects. This selection has to be made on the basis of priorities for selection. Ideally, the prioritization should be done on the basis of the magnitude of potential emissions reduction and the cost-effectiveness of such reductions so that a least-cost emission-reduction strategy is implemented. However, it should be noted that additional work on the methodology and data base is needed before a completely rigorous approach is feasible, although there are some fairly good ideas on how to construct cost-effectiveness curves. Under these circumstances, the prioritization of eligible projects should be done taking into account the following factors:

- o the importance of $CO_2$ due to emissions arising from the combustion of fossil fuels and land-use changes, and of $CH_4$ emissions induced by human activities.

- o the cost effectiveness of the technology deployed to reduce greenhouse gas emissions

The following section outlines the suggested funding allocation between generic categories of intervention, and the priority areas within each of the generic categories of intervention. STAP recommends that about 80 per cent of the allocation to each generic category be directed to the illustrative priority project areas within the generic category.

The percentages suggested are only indicative of priorities; it is acknowledged that opportunities and operational constraints may result in a different outcome, despite a "best efforts" attempt by the implementing agencies in which case the attempt must not be viewed as a failure. In fact, a significant shift in the direction of the targets must be adjudged as a success.

4.2.1 Improvements in end-use efficiency (35 per cent):

- o Reduction of energy intensity of basic materials;

- o Efficient motors and drives;

- o Lighting;

- o Irrigation pump sets;

- o Vehicle fuel efficiency;

- o Water heating.

4.2.2 Reduction of the emissions intensity of energy production (30 per cent):

- o Renewables such as photovoltaics;
- o Biomass gasifiers/gas turbines;
- o Growing and using sustainable biomass to replace fossil fuels;
- o Advanced, efficient gas turbine cycles;
- o Microhydropower.

4.2.3. Encouragement of shifts to beneficial fuel and transportation modes (10 per cent):

- o Coal/oil fuel switching to other fuels, including natural gas or environmentally benign renewables;
- o Transport modal shifts.

4.2.4. Non-carbon dioxide emission reductions, in particular methane (15 per cent):

- o Urban and rural waste treatment;
- o Reduction of flaring/venting of natural gas;
- o Reduction of releases associated with coal mining.

4.2.5. The remaining balance should be allocated to projects within the following generic areas (10 per cent):

- o Transmission and distribution efficiency
- o Emissions reduction at the point of end-use
- o Combating deforestation
- o Sequestering of greenhouse gases, e.g., reforestation

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9.0 *Criteria and priorities for research projects*

While the GEF is an action oriented program that will, if successful, develop a broad range of implementable solutions to complex environmental issues it is absolutely essential that there is a small "targeted" research element. The research should be applied, mission oriented and specific to developing countries. In some cases, STAP believes that a project may require a minimum research activity to facilitate the conduct of the project implementation.

9.1 Criteria:

GEF research projects should:

- o facilitate and enhance the quality of current or future technical assistance or investment projects.

- o generate scientific information required for ratified international conventions such as the Vienna Convention for the Protection of the Ozone Layer and it's Montreal Protocol, or for international conventions currently under negotiation, such as biodiversity and climate change.

9.2 Priorities

9.2.1 Reduction of greenhouse gas emissions

- o national inventories of the sources and sinks of greenhouse gases, which would lead to an improved understanding of the type of greenhouse gas reduction investment project that would be most cost-effective.

- o development of methodologies for least-cost emission curves.

- o improved quantification of greenhouse gas emissions from human activities, e.g., methane emissions from rice cultivation, natural gas lines, and land-fills, which will assist in the implementation of projects that will reduce greenhouse gas emissions.

9.2.2 Protection of biodiversity

- o floristic and faunistic inventories in order to establish baseline levels of ecosystem biodiversity, needed to evaluate the effectiveness of protection measures;

- o selective reproductive biology;

- o identification and selection of local germplasm;

- o in vitro propagation;

- o embryo transplant;

- o population ecology seed bank establishment;

- o in-situ conservation plot experiments;

- o economic, ethical and cultural value estimation of an areas biodiversity.

9.2.3 Protection of international waters

- o studies to understand the resilience of tropical marine communities to pollutants

- o new technologies for water and sewage treatment

## C. "Agenda 21: (A/CONF.151/26(Vol.III)

The Global Environment Facility, managed jointly by the World Bank, UNDP and UNEP, whose additional grant and concessional funding is designed to achieve global environmental benefits, should cover the agreed incremental costs of relevant activities under Agenda 21, in particular for developing countries. Therefore, it should be restructured so as to, inter alia:

Encourage universal participation;

Have sufficient flexibility to expand its scope and coverage to relevant programme areas of Agenda 21, with global environmental benefits, as agreed;

Ensure a governance that is transparent and democratic in nature, including in terms of decision-making and operations, by guaranteeing a balanced and equitable representation of the interests of developing countries and giving due weight to the funding efforts of donor countries;

Ensure new and additional financial resources on grant and concessional terms, in particular to developing countries;

Ensure predictability in the flow of funds by contributions from developed countries, taking into account the importance of equitable burden-sharing;

Ensure access to and disbursement of the funds under mutually agreed criteria without introducing new forms of conditionality;

## D. Report by the Chairman of the STAP to the Participants' Meeting, December 1992

### Portfolio Balance

20. STAP understands that the Participants of the GEF have indicated that there should be both regional and thematic balance. The approximate thematic allocations are: 40-50 per cent of the Global Environment Trust Fund (GET) resources shall be spent on projects concerned with the reduction of greenhouse gas emissions, about 30-40 per cent on projects to protect biodiversity, about 10-20 per cent on projects to protect international waters, and a small amount on projects to reduce ozone-depleting substances. In addition to the thematic and regional balance suggested by the Participants, STAP recommended quantitative funding targets for the various project areas within each of the environmental areas, e.g. 35% of the global warming portfolio should be allocated to improvements in end-use efficiency; 45% of the biodiversity portfolio for tropical forests; and 50% of the international waters portfolio for reduction of pollution in river systems and coastal areas.

*After the First Three Tranches*

21. STAP has performed an evaluation of the GET portfolio balance of projects in the first three tranches. STAP, through UNEP, solicited the assistance of a number of non-STAP experts to review both the biodiversity and global warming portfolios, but not the much smaller international waters portfolio. There was no ozone portfolio to review. The draft evaluations are attached to this report (Appendices 1-3), hence only the key conclusions are summarized in this report.

22. There was a clear regional and thematic imbalance after the first three tranches, with African and Global Warming projects under-represented and Asian and Biodiversity projects over-represented.

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24. Global Warming: This review was conducted by a small number of external reviewers and by members of STAP. The key conclusions, which are elaborated in Appendix 2, include:

* There are obvious weakness in the geographical distribution of the projects. Although most of the technologies developed in this portfolio are not country-specific and are globally replicable, the geographical distribution of the selected projects still remains an important issue. The differences in local resource, economic, culture, and institutional situations in different regions require appropriate allocation of projects among various regions. One particular defect is identified, i.e., the lack of projects in Africa countries.

* While most of the priority areas have been covered, there are significant differences between the STAP suggested and the actual allocation of funding among different priority areas.

* The priority area of Improvement of End-Use Efficiency is under-funded (suggested: 35%, actual: 12.3%). Within the six sub-areas listed in the Criteria and Priority structure, only three projects were selected. One-half of these sub-areas have not been covered, i.e., Reduction of Energy Intensity of Basic Materials, Irrigation Pump Sets, and Water heating.

* The priority area of Reduction of the Emission Intensity of Energy Production is relatively over-funded (suggested: 30%, actual: 40%). Even though, one important sub-area has not been covered, i.e., the area of Advanced, Efficient Gas Turbine Cycle. Two large projects, the Philippines - Promotion of Geothermal Energy Development Project and the Indian - Non-Conventional Energy, require a total of $60M, which already corresponds to the suggested 30% share of this priority area. The review raises the question whether, with limited GEF funding in the pilot phase, the GEF should support more smaller projects with wider coverage or support a few large projects with limited coverage?

* In the course of portfolio development, a new category of projects emerged, i.e., the "Soft Technologies" for GHG reduction, including strategic planning, policy and institutional development, and capability building. These projects were considered indispensable for identification, evaluation, and implementation of GEF technical projects. In addition, the information generated by these types of projects will be invaluable for the operational phase of the GEF. Although this category was not explicitly addressed in the priority list, they have been allocated 9.5% of total GEF funding for Global Warming projects.

* A striking weakness appears in the area of forest preservation, management, and plantation. In this priority area there is only one small (controversial) project which represents 1.2% of total funding. This area is particular important because these types of projects have benefits that extend beyond Global Warming, i.e., biodiversity and the local environment.

* Another observation is the allocation of funding among the projects in various eligibility categories: technologies that are technically proven but not yet economic (57%); technologies that are marketable but would not successful due to some institutional shortcomings (17%); technically feasible but not yet proven technologies (10%). The sum of the funding in the rest of the categories constitutes only 16% of the total. Although STAP did not advise on the allocation of funds among different eligibility categories, the review raised questions about the impact of concentrating so heavily on only one category. The reviewers were doubtful whether the success of the technically-proven but not economic projects would improve the marketability of these technologies.

* The Brazil - Biomass Gasification and Gas Turbines, India - Non-Conventional Energy, and China - Coal-Bed Methane Pilot Projects were selected as the projects most consistent with the STAP criteria and priority structure. The China - Sichuan Gas Transmissions/Distribution Rehabilitation, and Poland - Coal-to-Gas Conversion projects were identified as the least consistent in the portfolio.

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*After the First Four Tranches*

26. The regional and thematic imbalance of the first three tranches, with African and Global Warming projects under-represented and Asian and Biodiversity projects over-represented, has been largely compensated by the choice of fourth tranche proposals. Assuming that all proposed fourth tranche proposals are approved, then African projects will have received 20% of the allocated funds compared to a target of 24%, and global warming projects will have received 40% of the allocated funds compared to a target of 40-50%.

27. The fourth tranche projects associated with carbon sequestration and reducing methane leaks or gas flaring helped to balance the global warming portfolio. However, one major imbalance in the global warming portfolio is that the number of energy efficiency projects is significantly less than STAP had recommended. The two small energy efficiency fourth tranche proposals do little to rectify this portfolio imbalance. In fact the percentage of funds allocated to energy efficiency projects after the fourth tranche is only about 10%, rather than the recommended 35%. The focus of the global warming portfolio tends to remain with the classic strengths of the World Bank, i.e., energy demand type projects.

**Research Projects**

28. STAP remains convinced that the GEF should contain a "targeted" research element, as discussed in each of the previous STAP chairman's reports. These projects will facilitate the implementation of both technical assistance and investment projects, provide information required for the development and implementation of international conventions on biodiversity and climate change, and at the same time improve the scientific and technical infrastructure that is so desperately needed in many developing countries.

29. STAP notes that there are already seven UNDP and UNEP targeted research/monitoring, convention related, or scientific institution building projects in the first three tranches:

Targeted Research and Monitoring:

* UNDP-the WMO inter-regional monitoring of greenhouse gases;
* UNDP-the OPS and IRRI inter-regional evaluation of methane fluxes from rice fields;

Convention Related Country Case Studies:

* UNDP-the Asian regional assessment of least-cost greenhouse gas reduction plans;
* UNEP-Greenhouse Gas Country case studies;
* UNEP-Biodiversity Country studies;

Scientific Institution Building:

* UNDP-the OPS and IOI inter-regional oceans training centres;
* UNDP-the ICSU START initiative.

30. STAP is strongly supportive of similar types of UNDP and UNEP projects proposed for the fourth tranche:

Targeted Research and Monitoring:

* UNDP-a slash and burn project that is a high priority for both the Biodiversity and Global Warming portfolios.

Convention Related Country Case Studies:

* UNDP-development of strategic least-cost approaches and programmes in Sub-Saharan Africa;
* UNEP-global biodiversity assessment;
* UNEP-biodiversity country studies;
* UNEP-biodiversity information network.

Scientific Institution Building:

* UNDP-an additional $3 million for the START project, which STAP views to be of the highest priority-see previous STAP chairman's report.

31. STAP believes that a strong endorsement of targeted research projects from the Participants is needed to provide the necessary priority for these types of projects in future phases (transitional and operational) of the GEF. There is one serious misunderstanding on the part of some Participants, i.e., that there are many sources of funding for improving the scientific infrastructure in developing countries. Unfortunately this is not true, therefore, STAP is analyzing the current status of the scientific infrastructure in developing countries and will soon release a report entitled: The Global Environment Facility, Environmental Conventions and the Need for Enhanced Research Activities in Developing Countries.

32. The report entitled "The Global Environment Facility, Environmental Conventions and the Need for Enhanced Research Activities in Developing Countries" will discuss:

* how scientific, technical and economic information can improve the effectiveness of GEF investment and technical assistance projects;
* how scientific, technical and economic information can assist developing countries implement the conventions;
* how scientific, technical and economic information can assist developing countries in the short-, medium-, and long-term achieve the goals of AGENDA 21, i.e., sustainable development
* the state of scientific infrastructure and level of funding in developing countries from governments, international agencies (e.g., WMO, UNEP, FAO, IMO, etc), and international programs (e.g., WCRP, IGBP, SCOPE, and MAB);
* the role of regional research centers;
* the role of assessments in formulating international consensus on the state of knowledge with respect to scientific information, environmental impacts, and policy response options, including economic costs and the state of technology and the level of participation by experts from developing countries;
* the current state of scientific knowledge and identification of key scientific uncertainties for global climate change, biodiversity, ozone depletion, and international waters. The types of policy-relevant questions to be addressed for each environmental issue include: (i) what are the factors that cause change: role of human activities; (ii) is the situation changing? (iii) what are the predictions of future change? (iv) what are the implications of change? (v) how can we mitigate or adapt to change? (vi) do economically viable approaches exist to mitigate or adapt to change?;
* lessons to be learnt from previous attempts at environmental protection; and
* recommendations and conclusions

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## Criteria and Priorities

34. A fundamental perspective guiding the formulation of the STAP criteria and priority framework was that the present phase of the GEF is an initial pilot phase and that the GEF is likely to be continued in a more operational manner, supporting conventions such as: climate change and biodiversity. Consequently, STAP is evaluating possible changes that may be needed to the current criteria and priority framework for the next phase of the GEF, consistent with the goals and objectives of the Biodiversity and Climate Change Conventions. A "transitional or operational" phase of the GEF that supports the Conventions should be based on lessons learned in the pilot phase with less emphasis on innovativeness, but with an increased emphasis on cost-effectiveness. Therefore, STAP is focussing its attention on elaborating definitions of national benefits, global benefits, cost-effectiveness, and incremental costs as suggested by several Participants at the May Participants meeting, and is examining how the criteria and priority framework can be made more operational. Although there will be less emphasis on innovativeness in future phases of the GEF, STAP strongly believes that in the "transitional and operational" phases of the GEF there needs to be a structured research and technology development component.

35. STAP has assumed that: (i) the scope of the GEF will largely remain unchanged, i.e., it will focus on global warming, biodiversity, ozone depletion and water pollution, and (ii) projects associated with arid and semi-arid lands are viewed to be eligible, when merits are evident on the parameters of biodiversity and global warming.

36. STAP has developed three draft documents that describe the analytical frameworks (Biodiversity, Global Warming and International Waters) that might be used as the basis for the selection of projects, based on revised criteria and priorities (Appendices 4-6). STAP submits these drafts to the Participants and NGOs for review recognizing that it is far from complete, but in the spirit of exposing some of the current thinking of STAP. The revised drafts will be integrated into a single document, which will include a modified set of generic criteria. The document will also include an analytical framework for reduction in ozone layer depletion projects.

37. STAP welcomes comments on these draft Analytical Frameworks.

## E. Report by the Chairman to the Participants' Meeting, December 1992; Part One, Main Report, Tables 2 and 3

### TABLE 2
First, Second, Third and Fourth Tranches
(US$ million)

| | Africa | Asia | Arab States and Europe | Latin America and Caribbean | Global | Total | % |
|---|---|---|---|---|---|---|---|
| Biodiversity | 71.0 | 71.6 | 31.6 | 112.8 | 12.8 | 299.8 | 43 |
| Global Warming | 52.5 | 126.5 | 48.7 | 26.1 | 23.8 | 277.6 | 40 |
| Inter. Waters | 16.0 | 38.0 | 45.9 | 14.0 | 2.6 | 116.5 | 16 |
| Ozone | 0.0 | 0.0 | 3.8 | 0.0 | 0.0 | 3.8 | 1 |
| Total | 139.5 | 236.1 | 130.0 | 152.9 | 39.2 | 697.7 | 100 |
| % | 20 | 34 | 19 | 22 | 5 | 100.0 | |

### TABLE 3
First, Second, Third, and Fourth Tranches
(Number of Projects)

| | Africa | Asia | Arab States and Europe | Latin America and Caribbean | Global | Total | % |
|---|---|---|---|---|---|---|---|
| Biodiversity | 13 | 8 | 5 | 14 | 4 | 44 | 46 |
| Global Warming | 11 | 10 | 6 | 6 | 5 | 38 | 40 |
| Inter. Waters | 2 | 2 | 7 | 1 | 1 | 13 | 13 |
| Ozone | 0 | 0 | 1 | 0 | 0 | 1 | 1 |
| Total | 26 | 20 | 19 | 21 | 10 | 96 | 100 |
| % | 27 | 21 | 20 | 22 | 10 | 100 | |

## F. Participants' Meeting, December 1992, Chairman's Summary

### PARTICIPANTS' MEETING

**Abidjan, Côte d'Ivoire**

**Chairman's Summary**

1. The process of restructuring the GEF got off to a good start at the fourth meeting of Participants' Meeting that was generously hosted by the Ivoirian Government in Abidjan, Côte d'Ivoire, December 3-5, 1992. We have used this first post-Rio meeting to build upon Chapter 33 of Agenda 21 and the agreed document Beyond the Pilot Phase.

2. While the focus of this meeting was on governance, we also paid due attention to the continued implementation of the Pilot Phase. The Fourth Tranche was endorsed with the proviso that the oral comments of Participants will be taken into account in further project preparation, as will the written comments that we look forward to receiving by January 15. In addition, there was a clear consensus in favour of the implementing agencies providing more information on project implementation prior to approval. We will also be reporting to you on the disbursement of funds and procurement.

3. Back to governance. We have concentrated our energies on the two issues of the legal framework of the restructured GEF and its decision-making arrangements.

4. I am pleased to say that the proposal on the legal framework, as outlined in the Secretariat's proposal, is satisfactory to Participants. It is clearly understood that the final document, complete with annexes, must be endorsed by the Participants prior to adoption and that any future amendments would require consensus by the Participants' Assembly.

5. On decision-making, the sense of this meeting was that the GEF would be best served by a constituency arrangement that maximizes efficiency, harmony and cooperation, and a voting system for exceptional cases, when consensus eludes us. A number of proposals have been made, but clearly more work is needed. An issues paper with illustrative examples and simulations will be prepared for the March 1993 meeting. Any comments should be submitted to the Administrator's Office by January 15th. What we will always keep clear in mind are the principles adopted in Rio and Washington, D.C., particularly with regard to safeguarding the interests of recipients and contributors.

6. Participants reaffirmed the agreed objective of universal membership and its importance for the future structure of the new GEF. The consensus of the meeting was that there would not be a set membership fee. However, administrative expenses could be recovered, taking into consideration countries' ability to pay.

7. STAP's invaluable contribution to the GEF was recognized in many interventions from the floor. Clearly the Panel will continue to play a central role in the future. A number of proposals are on the table for its future structure, composition, and criteria for selection. We have had a first, useful exchange on these proposals and work on them will continue as we move further into the transition phase.

8. With regard to NGOs, I would like to underline the important role the non-governmental sector continues to play in the GEF as evidenced in the consultations that preceded this meeting. The consultation also highlighted the need to strengthen our efforts - especially in developing countries - on regional and national outreach and consultations to bring a wider range of organizations into the process, particularly at the grassroots. We will prepare a paper on NGOs and the GEF and submit it to Participants for discussion at their next regular meeting in May 1993.

9. UNDP will prepare for Participants a full progress report on the Small Grants Programme by the end of January 1993, as the basis for the provision of additional resources. Meanwhile, a $2 million allocation will be made to ensure continuity, subject to the approval of the progress report.

10. Participants recognized the significant contribution that the Regional Development Banks and UN specialized agencies can play in the GEF of the future. They encouraged the implementing agencies to continue to work with both the regional banks and the UN agencies on framework agreements to enable them to act as cooperating and executing agencies in the restructured GEF. They affirmed that the RDBs should work closely with the World Bank on investment projects and the U.N. agencies with UNDP on technical assistance. However, Participants emphasized that the implementation function in the GEF should continue to rest with the three established implementing agencies. They were not in favour of specific earmarking of resources to either the RDBs or UN Agencies.

11. Participants stressed that the linkages with the conventions are the axis about which the restructuring of the GEF must turn. They encouraged efforts already underway to work with the secretariats of the climate change and biodiversity conventions, and to assist developing countries in the formulation of their action programs and strategies under the conventions. We will continue our endeavors on both fronts in the year ahead while at the same time liaising closely with the interim institutions of the conventions.

12. Several Participants referred to the impetus provided by UNCED to the negotiation of a convention on desertification. The GEF would clearly be ready to work with the parties to an eventual convention to see how the GEF might assist them to achieve global environmental benefits. Meanwhile, in line with the April agreement, we have already begun to include land degradation issues, as they relate to the four thematic areas, in the work program of the Pilot Phase. There are two such projects in Africa in the fourth tranche and a workshop was held in Nairobi in November 1992 to articulate criteria and guidelines on this important issue. Concerns have also been raised about fresh water. The global aspects of this problem cut across the thematic lines of the GEF and should be addressed in the context of the international waters theme in the operational phase.

13. This meeting has made substantial strides towards our goal of completing the restructuring of the GEF by this time next year. The Administrator outlined the work program that we must

implement in the course of the next twelve months. It is certainly ambitious but if we maintain the momentum of this meeting we shall succeed. We must make sure that the GEF matures to become a transparent and effective entity that serves its purpose of integrating global environmental concerns into the development process, both as a facilitator and funding mechanism.

14. In order to maintain momentum we will move through a transitional phase, beginning in May 1993, during which we will gradually begin to implement agreed elements of the restructuring. However, the final and complete package will have to be examined and approved at the first full meeting of the Participants' Assembly. We must also complete the evaluation of the Pilot Phase, actively pursue co-financing arrangements, and provide support for convention-related activities.

15. In addition, negotiations on the replenishment should be initiated early in 1993. A broad consensus has emerged that an IDA-like approach should be followed. In this regard, talks on replenishment will be arranged in parallel with, but separate from, our on-going work on restructuring. Thresholds for contributions to the core fund as well as a suitable formula for burden-sharing will need to be considered.

16. We recognize that an impartial evaluation of the Pilot Phase is essential to the successful restructuring of the Facility and its replenishment. We welcome the Swiss delegation's suggestion and Participants' comments on this issue. A proposal and terms of reference for this evaluation will be prepared by the Secretariat for your review.

17. We must now act as expeditiously as possible to carry our plans through to fruition. To this end, we will meet for a one-day session in early March 1993 to continue discussions on decision-making and the priorities for the transition. This session will take place either in Europe or North America, to be followed by the fifth regular meeting of Participants in late May 1993. I am pleased to report that the Government of China has extended an official invitation to hold the meeting in Beijing.

Thank you.

December 5, 1992.